



United States Department of Agriculture  
Rural Development

101 South Main Street · Suite 102, Federal Building · Temple, Texas 76501  
Voice: (254) 742-9770 · Fax: (254) 742-9735 · TDD: (254) 742-9712

USDA Rural Development Texas AN No. 574 (3550)

**TO:** All Offices  
USDA Rural Development, Texas

March 21, 2003

**FROM:** Bryan Daniel   
State Director  
USDA Rural Development, Temple

**SUBJECT:** Direct Single Family Housing Area Loan Limits

**PURPOSE/INTENDED OUTCOME:** The purpose of this Administrative Notice (AN) is to establish maximum loan limits, authorized under the Section 502 direct loan program and to provide guidance for USDA Rural Development employees in the processing of direct Single Family Housing (SFH) applications.

**COMPARISONS WITH PREVIOUS ANs:** There are no previous ANs on this subject.

**IMPLEMENTATION RESPONSIBILITIES:** USDA Rural Development employees will review and process direct Single Family Housing applications in the manner described below when determining maximum loan limitations.

The Final Rule of 7 CFR 3550 changed a critical component of the modest housing definition. The description of modest housing changed from "cost that does not exceed the applicable limit established under 203(b)" to "**market value that does not exceed the applicable area loan limit as established by RHS...**" Builders, Realtors and applicants must be notified immediately of this change in USDA Rural Development regulations. In addition, a modest dwelling must be one that is considered modest for the area, must not be designed for income producing purposes, must not have an in-ground swimming pool or have a market value in excess of the applicable maximum loan limit.

The new area loan limits are a maximum market value limit, not a goal for new Section 502 direct loans. For example, if the cost of a typical house in a particular county is \$85,000 then we should continue to finance houses in that price range, even though the area loan limit may have increased to \$100,000. This will lessen the chance of a house being determined ineligible due to the appraised value exceeding the applicable area loan limit.

**EXPIRATION DATE:**  
September 30, 2003

**FILING INSTRUCTIONS:**  
HB-1- 3550  
Appendix 10

The area loan limit is the maximum value of the property RHS will finance in a given locality. To arrive at the area loan limit value, the cost to construct a modest dwelling as provided by Marshall & Swift was added to the market value of a typical improved site.

Where possible, regional area limits were created on a geographical basis (two or more contiguous counties that are similar in economic characteristics). As directed by the National Office, when regional loan limits were established, the lowest area loan limit among the counties that constitute the geographical area was used. The revised Area Loan Limits for Texas are attached. These limits are effective March 24, 2003. All area loan limit data will be updated annually. **All USDA Rural Development offices are directed to begin collecting new comparable sales (of typical sites located in eligible areas) so they will be available when area loan limits are updated.**

Any loan amount for the Rural Housing Service (RHS) appraisal, tax monitoring fee, and the charge to establish an escrow account for taxes and insurance will not be subject to the area loan limit. The area loan limit does not apply to loans on non-program (NP) terms.

**As stated in HB-1-3550, paragraph 3550. 63 (a) (2), the maximum loan limit for a particular loan will be reduced in the following situations:**

- A. When the applicant owns the site or is purchasing the site at a sales price below market value, the market value of the lot will be deducted from the maximum loan limit, and
- B. When an applicant is receiving a housing grant or other form of affordable housing assistance for purposes other than closing costs, the amount(s) of such grants and affordable housing assistance will be deducted from the maximum loan limit.
- C. The maximum loan limit for self-help housing will be calculated by adding the total of the market value of the lot (including reasonable and typical costs of site development), the cost of construction, and the value of sweat equity. The total of these three factors cannot exceed the area loan limit.

Please contact Leon Carey, Rural Housing Programs, if you have any questions.